

UTAH COUNTIES INSURANCE POOL

Financial Statements
and
Independent Auditors' Report

December 31, 2006 and 2005

UTAH COUNTIES INSURANCE POOL

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Utah Counties Insurance Pool

We have audited the accompanying basic financial statements of **Utah Counties Insurance Pool** as of December 31, 2006 and 2005, and for the years then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Pool is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of **Utah Counties Insurance Pool** as of December 31, 2006 and 2005, and the results of its operations and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Pool adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis— for State and Local Governments: Omnibus*, and GASB Statement No 38, *Certain Financial Statement Note Disclosures*, in fiscal year 2002, effective January 1, 2001. Effective January 1, 2004, the Pool adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Management's Discussion and Analysis is not a required part of the basic financial statements of the Pool, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information as listed under the heading of Required Supplementary Information in the accompany table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Pool, but is supplementary information required by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2007, on our consideration of the Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Larson & Company

Sandy, Utah
May 22, 2007

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UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

December 31, 2006 and 2005

COMPANY BACKGROUND

Utah Counties Insurance Pool (the Pool or UCIP) was incorporated in December 1991 as the Utah Association of Counties Insurance Mutual (the Mutual). In July 2003, the Mutual was renamed the Utah Counties Insurance Pool. The Pool is a non-profit public agency insurance mutual under the insurance statutes of the State of Utah and is an interlocal entity formed under section 11-13-101 et. seq. *Utah Code Annotated, 1953* as amended, as a joint program to insure risks for counties who enter into the interlocal agreement that creates UCIP. All of the Pool's business activities are conducted in the State of Utah.

2006 Environment

During the last half of 2006 the property reinsurance rates began to decline in reaction to underwriting profits that were buoyed by higher rates and a mild hurricane season. UCIP placed its property coverage at favorable rates by extensively marketing the package. The rate obtained was the lowest in our history. UCIP continues placing its liability reinsurance and workers' compensation coverage through the alternative market facility of County Reinsurance Limited, a Vermont-domiciled captive reinsurer that was formed under the auspices of the National Association of Counties. UCIP is also an equity owner of CRL, along with similar programs from fourteen other states. The equity in CRL is shown as an investment in this statement.

UCIP began an Employee Benefits Pool, effective January 1, 2006. The Benefits Pool is expected to be self-sufficient. UCIP has no capital exposure associated with the endeavor, as the Public Employees Health Plan is the risk bearer.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Pool's finances, in a manner similar to private-sector business.

The statements of net assets present information on all of the Pool's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Pool is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

The statements of revenues and expenses and changes in net assets present information showing how UCIP's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. The revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

December 31, 2006 and 2005

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The following discussion of the current financial position and condition of the Pool by management is intended to supplement the basic financial statements and notes to the basic financial statements.

FINANCIAL POSITION

Assets

Total assets at the end of 2006 were \$12,360,147, an increase of \$1,223,039 over 2005. Total assets at the end of 2005 were \$11,137,108, an increase of \$1,301,579 over 2004.

The Pool maintains a conservative investment policy. As a public entity, the Pool must adhere to the Utah Money Management Act. The UCIP Board of Trustees has also adopted an investment policy that is monitored by both the Board and the Board's Audit Committee. All securities must be issued to the Pool and held in our safe keeping account. Securities may not be held in brokerage accounts for any public agency governed by the Utah Money Management Act. The Pool does not invest in common stocks or mortgages.

Short-term investments are on deposit with the Utah Public Treasurer's Investment Fund and are available on a daily basis to meet claims and expenses.

Premium income has historically covered the Pool's needs for cash to pay claims and expenses. Management expects the positive cash flow to continue.

Liabilities

Total liabilities at the end of 2006 were \$9,389,678, an increase of \$1,543,084 over 2005. Total liabilities at the end of 2005 were \$7,846,594, an increase of \$2,580,530 over 2004.

Aggregate reserves for losses and loss adjustment expenses are \$7,305,587, an increase over last year of \$806,595. Much of the increase is due to adverse development in liability claims experience in 2004 and 2005. Reserves and IBNR are developed by the Pool's actuary and are at an expected confidence level. Administrative expenses overall increased to provide for resources needed to process claims and provide administrative services.

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

December 31, 2006 and 2005

Net Assets

Net assets at December 31, 2006 were \$2,970,469 as compared to \$3,290,514 at the end of 2005. Net assets at December 31, 2005 were \$3,290,514 as compared to \$4,569,465 at the end of 2004. The decline in net assets tracks the increase in reserves.

Condensed Statement of Net Assets

Assets:	2006	2005	Net Change
Current and other assets	\$ 12,250,878	\$ 11,051,713	\$ 1,199,165
Capital assets	109,269	85,395	23,874
Total assets	\$ 12,360,147	\$ 11,137,108	\$ 1,223,039
Liabilities:			
Current and other liabilities	\$ 9,389,678	\$ 7,846,594	\$ 1,543,084
Long-term liabilities	-	-	-
Total liabilities	9,389,678	7,846,594	1,543,084
Net assets:			
Invested in capital assets, net of related debt	109,269	85,395	23,874
Restricted	79,963	129,564	(49,601)
Unrestricted	2,781,237	3,075,555	(294,318)
Total net assets	2,970,469	3,290,514	(320,045)
Total liabilities and net assets	\$ 12,360,147	\$ 11,137,108	\$ 1,223,039

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

December 31, 2006 and 2005

Net Assets (continued)

Condensed Statement of Net Assets

Assets:	2005	2004	Net Change
Current and other assets	\$ 11,051,713	\$ 9,748,941	\$ 1,302,772
Capital assets	85,395	86,588	(1,193)
Total assets	\$ 11,137,108	\$ 9,835,529	\$ 1,301,579
Liabilities:			
Current and other liabilities	\$ 7,846,594	\$ 5,266,064	\$ 2,580,530
Long-term liabilities	-	-	-
Total liabilities	7,846,594	5,266,064	2,580,530
Net assets:			
Invested in capital assets, net of related debt	85,395	86,588	(1,193)
Restricted	129,564	139,996	(10,432)
Unrestricted	3,075,555	4,342,881	(1,267,326)
Total net assets	3,290,514	4,569,465	(1,278,951)
Total liabilities and net assets	\$ 11,137,108	\$ 9,835,529	\$ 1,301,579

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

December 31, 2006 and 2005

RESULTS OF OPERATIONS

Revenues

Revenue increased \$4,546,640, to approximately \$10.9 million in 2006. The increase is mostly attributable to the new employee benefits pool which contributed an additional \$3,865,313 of written premium in 2006. Revenue increased \$852,299, to approximately \$6.3 million in 2005. The increase is attributable to exposure increases of existing members, increased investment earnings, and rate increases and the addition of participants in the Workers' Compensation Program. Workers' Compensation earned about \$2,080,000 in premium in 2006 and about \$1,600,000 in premium in 2005, an increase of 30% over 2005 and 75% over 2004. The Multiline program increased rates in 2006 for the 2007 year, part of which is intended to restore some net equity.

Condensed Statement of Revenues

Revenues:	2006	2005	Net Change
Premiums and other considerations	\$ 10,191,520	\$ 5,869,005	\$ 4,322,516
Investment income	493,729	489,849	3,880
Realized loss on investments	7,142	(13,188)	20,331
Other income	208,713	8,800	199,913
Total revenues	\$ 10,901,105	\$ 6,354,465	\$ 4,546,640

Condensed Statement of Revenues

Revenues:	2005	2004	Net Change
Premiums and other considerations	\$ 5,869,005	\$ 5,234,410	\$ 634,595
Investment income	489,849	300,597	189,252
Realized loss on investments	(13,188)	(42,455)	29,267
Other income	8,800	9,615	(815)
Total revenues	\$ 6,354,466	\$ 5,502,167	\$ 852,299

Benefits and Expenses

For 2006, the increase in administration expenses consists of \$3.8 million paid in premiums to Public Employers Health Plan (PEHP) for the new employee benefits pool. For 2006, losses and loss adjustment expenses increased in part due to claims paid for new members of the workers' compensation program. For 2005, losses and loss adjustment expenses increased in part due to claims paid through the workers' compensation program. Reinsurance expenses increased due to exposure increases in workers' compensation. Increases in administration expenses include increases in staffing and increased costs for existing staff.

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis December 31, 2006 and 2005

Benefits and Expenses (continued)

Condensed Statement of Expenses

Expenses:	2006	2005	Net Change
Losses and loss adjustment expenses	\$ 5,910,051	\$ 6,325,882	\$ (415,831)
Other operating expenses	5,311,098	1,307,535	4,003,563
Total expenses	<u>\$ 11,221,149</u>	<u>\$ 7,633,417</u>	<u>\$ 3,587,732</u>

Condensed Statement of Expenses

Expenses:	2005	2004	Net Change
Losses and loss adjustment expenses	\$ 6,325,882	\$ 5,466,373	\$ 859,509
Other operating expenses	1,307,535	1,262,135	45,400
Total expenses	<u>\$ 7,633,417</u>	<u>\$ 6,728,508</u>	<u>\$ 904,909</u>

Investments

During 2006, the Pool increased its investment in UBS securities because of an overall increase in UBS interest rates. Some of this increase came from a shift of resources from Wells Fargo to UBS securities. This shift corresponds to the \$1,790,290 increase in UBS investments and the \$823,658 decrease in Wells Fargo investments.

During 2005, the Pool moved to increase returns on short term investments by increasing and diversifying the amount of cash invested in overnight and up to 30 day investments. Investment income increased 63% in 2005, going from \$300,597 to \$489,849. Investment income effectively works to decrease the cost of coverage to members. Obtaining the best rate of return, while retaining necessary liquidity and maintaining security, is the Pool's investment goal.

Change in Net Assets

Change in net assets for 2006 was a decrease of \$320,045. Change in net assets for 2005 was a decrease of \$1,278,951. The decrease was due to increased reserve requirements.

Claims are expected to continue to grow in line with the risk associated with the property and liability and Workers' Compensation business. Increased risk management efforts can offset increases in claims, but the occasional adverse year can and will occur.

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis December 31, 2006 and 2005

CASH FLOW AND LIQUIDITY

Liquidity

All of the Pool's assets are invested to maintain necessary liquidity. Immediate and near-term cash needs are invested with the Public Treasurer's Investment Fund. Assets that can be invested for a longer time period, thereby yielding a higher return, are "laddered" so that investments mature as needed.

Currently the book value of the Pool's portfolio is \$11,860,416 as reported in the accompanying basic financial statements.

Cash Flow

The Pool's primary sources of funds are premium income and investment income. The primary uses of funds are claims and general expenses.

There are no known demands for cash that will likely cause material changes in the cash flow pattern.

Expected Trends

The budget for the year 2007 has been approved by the Board of Trustees and reflects no change in net assets. Total revenue is budgeted to increase 12% over 2006. This figure reflects an 11% overall increase in the multiline program and expected premium increases from a fourth year of operating the workers compensation program. Total benefits and expenses are budgeted to balance with revenues.

Board Policies and Management Practices

The Board of Trustees of the Pool currently requires that audits, conducted by independent outside firms, be performed on an annual basis. The 2006 audit schedule included an actuarial loss reserve analysis, an actuarial contribution study, and a financial audit.

UTAH COUNTIES INSURANCE POOL

Management's Discussion and Analysis

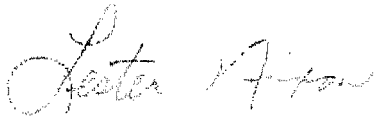
December 31, 2006 and 2005

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2006, as reported in the 2006 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

This financial report is designed to provide a general overview of the Pool's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Executive Officer, Utah Counties Insurance Pool, P.O. Box 760, Midvale, UT 84047.

Dated: May 22, 2007



Lester J. Nixon, CPCU
Chief Executive Officer

UTAH COUNTIES INSURANCE POOL

Statements of Net Assets December 31, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	\$ 2,500,235	\$ 1,461,768
Accounts receivable	244,659	18,183
Accrued investment income	111,727	79,203
Security deposit	3,976	-
Prepaid expenses	30,100	99,000
Total current assets	2,890,697	1,658,154
Investments	9,360,181	9,393,559
Capital assets , net of accumulated depreciation of \$63,919 and \$41,171, respectively	109,269	85,395
Total assets	\$ 12,360,147	\$ 11,137,108
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Reserves for losses and loss adjustment expenses	\$ 7,305,587	\$ 6,498,992
Accounts payable	766,438	110,101
Payroll liabilities	113	11,525
Compensated absences payable	63,970	35,166
Premiums paid in advance	1,253,544	1,176,919
Total current liabilities	9,389,652	7,832,703
Building related payables	26	13,891
Total liabilities	9,389,678	7,846,594
Net assets:		
Invested in capital assets	109,269	85,395
Restricted for:		
Auto	31,698	15,094
Building debt service	20,095	86,300
Building repairs and maintenance	28,170	28,170
Unrestricted	2,781,237	3,075,555
Total net assets	2,970,469	3,290,514
Total liabilities and net assets	\$ 12,360,147	\$ 11,137,108

The accompanying notes to financial statements
are an integral part of these statements.

UTAH COUNTIES INSURANCE POOL

Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended December 31, 2006 and 2005

	2006	2005
Operating income:		
Premiums and other considerations	\$ 10,141,520	\$ 5,869,005
Investment income	543,729	489,849
Program management fees	15,767	-
Realized gain (loss) on investments	7,142	(13,188)
Miscellaneous income	192,946	8,800
Total income	10,901,104	6,354,466
Underwriting expenses:		
Losses and loss adjustment expenses	4,369,981	4,888,066
Reinsurance expense	1,359,354	1,281,267
Employee benefit premiums	3,851,153	-
Risk management program credit	180,716	156,549
Total underwriting expenses	9,761,204	6,325,882
Administration expenses:		
Accounting	14,064	13,513
Actuary	8,448	16,000
Auto	14,499	11,023
Bank expense	30	51
Board expense	56,805	40,875
Bonding	30,042	37,500
Building	57,994	17,156
Consulting	178,075	60,000
Copying	6,203	1,611
Depreciation	31,190	25,983
Dues and subscriptions	5,793	5,297
Exhibitions and sponsorships	17,000	12,744
Information technology	7,539	16,864
Insurance	6,442	5,492
Land Use Hotline Program	6,462	1,359
Lease purchase (debt service)	-	58,703
Licenses & permits	1,415	650
Lobbying & legislative tracking	2,223	10,000
Loss control - training	49,490	32,087
Marketing	345	-
Office equipment	1,509	1,232
Office supplies	6,903	8,306
Pass-through premium	-	45,669
Postage	4,369	3,135
Premium credits and incentives	5,000	5,616
Premium taxes	67,946	20,046
Printing	2,948	1,436
Professional fees	15,195	33,920
Staff expenses	704,954	620,960
Telephone	8,149	6,143
TPA WC	148,913	194,164
Total administration expenses	1,459,945	1,307,535
Total operating expenses	11,221,149	7,633,417
Change in net assets	(320,045)	(1,278,951)
Net assets, beginning of year	3,290,514	4,569,465
Net assets, end of year	\$ 2,970,469	\$ 3,290,514

The accompanying notes to financial statements are an integral part of these statements.

UTAH COUNTIES INSURANCE POOL
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Premiums collected	\$ 10,037,429	\$ 6,382,548
Program management fees collected	14,124	-
Reinsurance paid	(1,359,354)	(1,281,267)
Amounts withheld for others	(3,883,040)	14,116
Losses and loss adjustment expenses paid	(3,563,386)	(2,930,049)
Administrative expenses paid	(683,106)	(1,428,131)
Net cash provided by operating activities	<u>562,667</u>	<u>757,217</u>
Cash flows from capital and related financing activities:		
Building security deposit	(3,976)	-
Acquisition of capital assets	(71,948)	(24,791)
Net cash used by capital and related financing activities	<u>(75,924)</u>	<u>(24,791)</u>
Cash flows from investing activities:		
Purchases of investments	(4,889,285)	(3,586,409)
Proceeds from sale of investments	5,041,000	2,342,137
Interest on investments	400,009	329,842
Net cash provided (used) by investing activities	<u>551,724</u>	<u>(914,430)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,038,467</u>	<u>(182,004)</u>
Cash and cash equivalents at beginning of period	<u>1,461,768</u>	<u>1,643,772</u>
Cash and cash equivalents at end of period	<u>\$ 2,500,235</u>	<u>\$ 1,461,768</u>

The accompanying notes to financial statements are an integral part of these statements.

	<u>2006</u>	<u>2005</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	<u>\$ (320,045)</u>	<u>\$ (1,278,951)</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	31,190	25,983
Interest received on investments	(400,009)	(329,842)
Amortization of investments	2,852	3,742
Increase in equity in CRL	(114,048)	(156,479)
Realized (gain) loss on sale of investments	(7,142)	13,188
Loss on disposal of equipment	16,885	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(226,476)	5,316
Increase in accrued investment income	(32,524)	(7,270)
(Increase) decrease in prepaid expenses	68,900	(99,000)
Increase in reserves for		
loss and loss adjustment expenses	806,595	1,958,017
Increase (decrease) in accounts payable	656,337	(39,042)
Decrease in payroll liabilities	(11,412)	(6,933)
Increase in compensated absences	28,804	10,656
Increase in premiums paid in advance	76,625	670,092
Decrease in building related payable	(13,865)	(12,260)
Total adjustments	<u>882,712</u>	<u>2,036,168</u>
Net cash flows provided by operating activities	<u><u>\$ 562,667</u></u>	<u><u>\$ 757,217</u></u>

UTAH COUNTIES INSURANCE POOL

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Utah Counties Insurance Pool (the Pool or UCIP) was incorporated in December 1991 as the Utah Association of Counties Insurance Mutual (the Mutual). In July 2003, the Mutual was renamed the Utah Counties Insurance Pool. The Pool is a non-profit public agency insurance mutual under the insurance statutes of the State of Utah and is an interlocal entity formed under section 11.13.101 et. seq. *Utah Code Annotated, 1953* as amended, as a joint program to insure risks for counties who enter into the interlocal agreement that creates UCIP. The Pool started insuring workers compensation insurance effective January 1, 2004. The Pool also began an employee benefits pool on January 1, 2006. All of the Pool's business activities are conducted in the State of Utah.

Accounting Principles

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Pool adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments* (GASB Statement 34), GASB Statement No. 37, *Basic Financial statement and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, in fiscal year 2002, effective January 1, 2001. Effective January 1, 2004, the Pool adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. With the implementation of these statements, the Pool has prepared required supplementary information titled 'Managements' Discussion and Analysis' which precedes the basic financial statements, has prepared a balance sheet classified between current and noncurrent assets and liabilities, has categorized net assets as invested in capital assets and unrestricted, has prepared the statements of cash flows on the direct method, and provided additional schedules to better communicate the financial status of the governmental entity.

The accounting policies of the Pool conform to accounting principles generally accepted in the United States of America in all material respects. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, the Pool has opted to apply all pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 1989, unless the FASB pronouncements conflict with or contradict GASB pronouncements. The following is a summary of the more significant of such policies.

Basis of Accounting

The Pool reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. The estimates which are particularly susceptible to change related to the actuarial valuation of the claims incurred but not reported and loss reserves. Actual results could differ from those estimates.

The Pool invests in various investment securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

Income Taxes

The Pool is exempt from the payment of income taxes under Section 115 of the Internal Revenue Code.

Premiums

Substantially all policies have a common annual renewal date of January 1. Premiums written are earned on a daily pro rata basis over the policy term.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Pool considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. Therefore, the investment in Utah Public Treasurers' Fund, money market funds, and cash on deposit are considered to be cash equivalents.

Investments

Investments are comprised of various U.S. Government securities, certificates of deposit and investment in CRL.

Investments in U.S. Government securities as of December 31, 2006 and 2005 consist of held-to-maturity securities. Held-to-maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the effective interest method over the period to maturity.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

The investment in CRL is valued using the equity method of accounting. Under the equity method, the Pool recognizes its share in the net earnings or losses of the company as they occur rather than as dividends are received.

Capital Assets

Capital assets are defined by the Pool as assets with an initial individual cost of more than \$500. Capital assets are stated at cost less accumulated depreciation. Depreciation on furniture, equipment and electronic data processing equipment is provided over the estimated useful lives of the assets on the straight-line method. Useful lives vary from 3 to 5 years. Depreciation expense for the years ended December 31, 2006 and 2005 amounted to **\$31,190** and \$25,983, respectively.

Maintenance and repairs, which do not materially extend the useful lives and minor replacements, are expensed as incurred.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected as compensated absences payable.

Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes that amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Listed below is a summary of the cash and investment portfolios as of December 31, 2006 and 2005. Investing is governed by the prudent man rule in accordance with statutes of the State of Utah. All investments of the Pool are considered to have been made in accordance with these governing statutes.

Cash and cash equivalents

Cash and cash equivalents of the Pool are carried at cost. The carrying amount of the cash on deposit, net of outstanding checks, is **\$1,882,255** and \$707,574, as of December 31, 2006 and 2005, respectively. The corresponding bank balance of the deposits was **\$1,938,216** and \$725,771 as of December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, **\$100,000** and \$100,000 of the Pool's cash on deposit was insured by the FDIC.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2006 and 2005, the Pool had amounts over FDIC insurance of **\$558,733** and \$625,771.

As of December 31, 2006 and 2005, the Pool's cash and cash equivalents and investments included the following:

	<u>2006</u>	<u>2005</u>
Cash on deposit	\$ 602,772	\$ 682,030
Money market funds	1,592,796	377,749
Utah Public Treasurer's Investment Fund - held by the Pool	<u>304,667</u>	<u>401,989</u>
Total cash and cash equivalents	2,500,235	1,461,768
 Deposit - U.S. governments securities held jointly with the State of Utah	 -	 1,114,058
Certificates of deposit	306,000	305,000
Investments - U.S. government securities	8,499,000	7,533,368
Equity investments	<u>555,181</u>	<u>441,133</u>
 Total cash and cash equivalents and investments	 <u>\$ 11,860,416</u>	 <u>\$ 10,855,327</u>

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

The Pool records its investments in U.S. Treasuries and U.S. Agencies at amortized cost. The differences between book value and fair value as of December 31, 2006 and 2005 are as follows:

	2006				
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Statement Value
Certificates of deposit	\$ 306,000	\$ -	\$ 523	\$ 305,477	\$ 306,000
Government bonds	8,499,000	30,899	108,145	8,421,754	8,499,000
Equity investments	441,119	114,062	-	555,181	555,181
Total investments	<u>\$ 9,246,119</u>	<u>\$ 144,961</u>	<u>\$ 108,668</u>	<u>\$ 9,282,412</u>	<u>\$ 9,360,181</u>

	2005				
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Statement Value
Certificates of deposit	\$ 305,000	\$ -	\$ 211	\$ 304,789	\$ 305,000
Government bonds	7,747,426	6,043	168,964	7,584,505	7,747,426
Equity investments	284,654	156,479	-	441,133	441,133
Government preferred	900,000	-	-	900,000	900,000
Total investments	<u>\$ 9,237,080</u>	<u>\$ 162,522</u>	<u>\$ 169,175</u>	<u>\$ 9,230,427</u>	<u>\$ 9,393,559</u>

The schedule below provides information about the credit risk, interest rate risk, credit rate risk, and concentration of credit risk associated with the Pool's investments as of December 31, 2006 and 2005.

	2006				
	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Investment type: as of December 31, 2006:					
Certificates of deposit	\$ 305,477	\$ 244,654	\$ 60,823	\$ -	\$ -
U.S. Agencies	8,421,754	7,821,712	98,500	501,542	-
Equity investment in CRL	555,181	-	-	-	555,181
Total investments	<u>\$ 9,282,412</u>	<u>\$ 8,066,366</u>	<u>\$ 159,323</u>	<u>\$ 501,542</u>	<u>\$ 555,181</u>

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

		2005			
		Investment Maturities (in Years)			
Fair Value		Less Than 1	1-5	6-10	More Than 10
Investment type:					
as of December 31, 2005:					
Certificates of deposit	\$ 304,789	\$ 304,789	\$ -	\$ -	\$ -
U.S. Agencies	7,584,505	2,334,881	3,983,246	1,266,378	-
Equity investment in CRL	441,133	-	-	-	441,133
U.S. Government preferreds	900,000	-	-	-	900,000
Total investments	\$ 9,230,427	\$ 2,639,670	\$ 3,983,246	\$ 1,266,378	\$ 1,341,133

Interest Rate Risk

In accordance with the Pool investment policy, the Pool manages its exposure to declines in fair value by laddering the maturities of its securities.

Credit Rate Risk

It is the Pool's policy to limit its investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs) so the total investment portfolio maintains an "A" (S&P) or equivalent minimum rating. The Pool's investments in bonds were rated "AAA" by Standard & Poor's and Fitch Ratings, and "Aaa" by Moody's Investors Service.

Concentration of Credit Risk

The Pool's investment policy is that investment in commercial paper, corporate bonds and asset-backed obligations shall not exceed 20% of the total assets of UCIP's investments.

3. INTEREST RATES

The interest rates for assets held with the Utah Public Treasurers' Investment Fund were 5.28% and 4.15% for the years ended December 31, 2006 and 2005, respectively.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

4. CAPITAL ASSETS

The capital assets and related accumulated depreciation of the Pool are:

	2006			
	Beginning Balance	Capital Acquisitions	Dispositions	Ending Balance
Capital assets	\$ 126,566	\$ 71,948	\$ 25,326	\$ 173,188

	2006			
	<u>Beginning Balance</u>	<u>Depreciation Expense</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Accumulated depreciation	\$ 41,171	\$ 31,190	\$ 8,442	\$ 63,919

	2005			
	Beginning Balance	Capital Acquisitions	Dispositions	Ending Balance
Capital assets	\$ 101,775	\$ 24,791	\$ -	\$ 126,566

	2005			
	<u>Beginning Balance</u>	<u>Depreciation Expense</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Accumulated depreciation	\$ 15,188	\$ 25,983	\$ -	\$ 41,171

5. RELATED PARTY TRANSACTIONS

The Pool paid UAC quarterly for building maintenance, office supplies, DSL lines, etc through February 1, 2006. The Pool paid UAC \$0 and \$54,947 for these services for the year ended December 31, 2006 and 2005, respectively.

Amounts payable to UAC as of December 31, 2006 and 2005 amounted to \$0 and \$18,042, respectively for third and fourth quarter fees and interest on the building.

Both the Pool and UAC have agreed that the Pool has an equity interest in the building. On September 18, 2006 UAC and the Pool signed a mutual release of the Pool's equity interest in the building for \$190,000. This amount is included in miscellaneous income on these financial statements.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

6. CONTINGENCIES

The Pool is subject to litigation from the settlement of claims contested in the normal course of business. The losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated unpaid loss and loss adjustment expense liabilities.

7. REINSURANCE

Effective 2003, the Pool has purchased only specific reinsurance coverage. The agreement provides for liability insurance in excess of a \$250,000 self-insured retention and property and crime insurance in excess of a \$250,000 self-insured retention.

Effective 2004, the Pool has purchased reinsurance for its workers compensation insurance in excess of a \$300,000 self-insured retention.

Estimated claims loss liabilities are stated net of estimated losses applicable to reinsurance ceded to other insurance companies. However, the Pool is contingently liable for those amounts in the event such companies are unable to pay their portion of the claims.

Unsecured Reinsurance Recoverables

The Company has reinsurance recoverables in the amount of **\$239,785** and **\$0** from its reinsurers for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium as of December 31, 2006 and 2005, respectively.

Reinsurance Recoverable in Dispute

The Company does not have any disputed balances or uncollectible funds.

8. RETIREMENT PLAN

The retirement plan for employees of the Pool is funded by the Pool. The employees are covered under multiple-employer, public employee retirement systems administered by the State Retirement System. This plan is noncontributory and includes a 401(k) plan. The Pool contributes 9.62% and 8.54% of employee's salaries under the plans. The Pool's employees are also covered under a 457 plan for which the Pool contributes 4.3% of employee's salaries.

The total retirement expense for the Pool for the year ended December 31, 2006 and 2005 was **\$101,582** and **\$94,539**, respectively.

UTAH COUNTIES INSURANCE POOL
Notes to Basic Financial Statements

9. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by approximately **(\$97,000)** and \$555,000 in 2006 and 2005, respectively, as a result of reestimation of unpaid losses and loss adjustment expenses. This change is generally the result of ongoing analysis of recent loss development trends. Original estimates change as additional information becomes known regarding individual claims.

	<u>2006</u>	<u>2005</u>
Balance at January 1 (in thousands)	\$ 6,498	\$ 4,541
Incurred, related to:		
Current year	4,392	4,474
Prior year	(97)	555
Total incurred	<u>4,295</u>	<u>5,029</u>
Paid, related to:		
Current year	1,059	1,383
Prior year	2,429	1,689
Total paid	<u>3,488</u>	<u>3,072</u>
Balance at December 31	<u><u>\$ 7,305</u></u>	<u><u>\$ 6,498</u></u>

10. OPERATING LEASE COMMITMENT

Beginning February 1, 2006, the Pool entered into a three year commitment to lease their office building. The Pool paid **\$57,994** and \$0 in rent and maintenance expenses for the years ending December 31, 2006 and 2005, respectively.

Future minimum rental commitments for the building operating lease as of December 31, 2006 are as follows:

2007	\$ 49,024
2008	50,491
2009	4,218
2010	-
2011	-
Total minimum lease payments	<u><u>\$ 103,733</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

UTAH COUNTIES INSURANCE POOL

Premiums and Loss Development Information

The following table compares the Pool's earned revenues net of reinsurance and investment income to related costs of losses and loss adjustment expenses, net of reinsurance, assumed by the Pool. The table is defined as follows: (1) show each year's net earned premiums, other operating revenues and interest income, (2) shows each year's other operating expenses including overhead and loss adjustment expenses not allocable to specific claims, (3) show incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred, (4) shows the cumulative amounts paid as of the end of successive years for each accident year, (5) shows how each coverage year's incurred losses increased or decreased as of the end of the successive years: this annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims, (6) compares the latest reestimated incurred loss amounts to the amounts originally established. Pool information is only available in the format shown below for the years presented.

(in thousands)	1998	1999	2000	2001	2002	2003	2004	2005	2006
(1) Earned premiums, other operating revenues and investment revenues, net of reinsurance	2,760	2,652	2,891	2,787	2,768	2,803	3,912	5,073	9,542
(2) Unallocated expense	215	253	224	224	233	242	-	-	-
(3) Estimated incurred claims, both paid and accrued, end of accident year	1,558	1,530	1,580	1,715	1,905	2,304	3,495	4,334	4,245
(4) Paid (cumulative) as of:									
End of accident year	592	480	334	504	511	661	1,104	1,383	1,059
One year later	740	744	468	964	910	1,190	1,786	2,361	-
Two years later	890	931	583	1,264	1,224	1,561	2,171	-	-
Three years later	1,175	1,024	788	1,588	1,406	2,213	-	-	-
Four years later	1,276	1,302	1,049	1,715	1,567	-	-	-	-
Five years later	1,225	1,422	-	-	-	-	-	-	-
Six years later	1,308	1,495	-	-	-	-	-	-	-
Seven years later	1,335	1,530	-	-	-	-	-	-	-
Eight years later	1,387	-	-	-	-	-	-	-	-
(5) Reestimated incurred losses and expenses:									
End of accident year	1,558	1,530	1,581	1,714	1,905	2,304	3,495	4,334	4,245
One year later	1,558	1,531	1,183	1,923	1,574	2,178	3,524	4,448	-
Two years later	1,480	1,530	953	1,715	1,775	2,618	3,302	-	-
Three years later	1,395	1,463	972	1,715	1,850	2,624	-	-	-
Four years later	1,252	1,471	1,120	1,715	1,850	-	-	-	-
Five years later	1,309	1,530	1,079	1,715	-	-	-	-	-
Six years later	1,399	1,530	1,084	-	-	-	-	-	-
Seven years later	1,416	1,530	-	-	-	-	-	-	-
Eight years later	1,396	-	-	-	-	-	-	-	-
(6) Decrease in estimated incurred losses and expenses from end of accident year	(162)	-	(496)	-	(55)	320	(193)	114	-

SUPPLEMENTARY INFORMATION

UTAH COUNTIES INSURANCE POOL

Statement of Net Assets

by Line of Business

December 31, 2006

ASSETS	Multiline	Workers Comp	Employee Benefits	Total
Current assets:				
Cash and cash equivalents	\$ 1,013,730	\$ 1,217,583	\$ 268,922	\$ 2,500,235
Accounts receivable	244,659	-	-	244,659
Accrued investment income	111,727	-	-	111,727
Other current assets	34,076	-	-	34,076
Total current assets	1,404,192	1,217,583	268,922	2,890,697
Investments	9,201,907	158,274	-	9,360,181
Capital assets, net of accumulated depreciation of \$63,919	109,269	-	-	109,269
Total assets	\$ 10,715,368	\$ 1,375,857	\$ 268,922	\$ 12,360,147
LIABILITIES AND NET ASSETS				
Current liabilities:				
Reserves for losses and loss adjustment expenses	\$ 4,943,871	\$ 2,361,716	\$ -	\$ 7,305,587
Accounts payable	671,809	94,629	-	766,438
Payroll liabilities	113	-	-	113
Compensated absences payable	63,970	-	-	63,970
Premiums paid in advance	943,479	310,065	-	1,253,544
Total current liabilities	6,623,242	2,766,410	-	9,389,652
Building related payables	26	-	-	26
Total liabilities	6,623,268	2,766,410	-	9,389,678
Net assets:				
Invested in capital assets	109,269	-	-	109,269
Restricted for:				
Auto	31,698	-	-	31,698
Building debt service	20,095	-	-	20,095
Building repairs and maintenance	28,170	-	-	28,170
Unrestricted	3,902,868	(1,390,553)	268,922	2,781,237
Total net assets	4,092,100	(1,390,553)	268,922	2,970,469
Total liabilities and net assets	\$ 10,715,368	\$ 1,375,857	\$ 268,922	\$ 12,360,147

UTAH COUNTIES INSURANCE POOL
Statement of Revenues, Expenses, and Changes in Net Assets
by Line of Business
For the Year Ended December 31, 2006

	Multiline	Workers Comp	Employee Benefits	Administrative	Total
Income:					
Premiums and other considerations	\$ 4,195,406	\$ 2,080,801	\$ 3,865,313	\$ -	\$ 10,141,520
Investment income	418,888	74,841	50,000	-	543,729
Program management fees	-	-	15,767	-	15,767
Realized gain on investments	7,142	-	-	-	7,142
Miscellaneous income	192,946	-	-	-	192,946
Total income	4,814,382	2,155,642	3,931,080	-	10,901,104
Underwriting expenses:					
Losses and loss adjustment expenses	2,460,061	1,909,920	-	-	4,369,981
Reinsurance expense	1,010,100	349,254	-	-	1,359,354
Employee benefit premiums	-	-	3,851,153	-	3,851,153
Risk management program credit	151,581	29,135	-	-	180,716
Total underwriting expenses	3,621,742	2,288,309	3,851,153	-	9,761,204
Administration expenses:					
Accounting	8,468	5,596	-	-	14,064
Actuary	4,250	4,198	-	-	8,448
Auto	-	-	-	14,499	14,499
Bank expense	-	-	-	30	30
Board expense	-	-	-	56,805	56,805
Bonding	-	30,042	-	-	30,042
Building	-	-	-	57,994	57,994
Consulting	-	-	99,000	79,075	178,075
Copying	-	-	-	6,203	6,203
Depreciation	-	-	-	31,190	31,190
Dues and subscriptions	-	-	-	5,793	5,793
Exhibitions and sponsorships	-	-	-	17,000	17,000
Information technology	-	-	-	7,539	7,539
Insurance	-	-	-	6,442	6,442
Land Use Hotline Program	-	-	-	6,462	6,462
Licenses & permits	-	-	-	1,415	1,415
Lobbying & legislative tracking	-	-	-	2,223	2,223
Loss control - training	-	-	-	49,490	49,490
Marketing	-	-	-	345	345
Office equipment	-	-	-	1,509	1,509
Office supplies	-	-	-	6,903	6,903
Pass-through premium	-	-	-	-	-
Postage	-	-	-	4,369	4,369
Premium credits and incentives	-	-	-	5,000	5,000
Premium taxes	-	67,946	-	-	67,946
Printing	-	-	-	2,948	2,948
Professional fees	-	-	-	15,195	15,195
Staff expenses	-	-	-	704,954	704,954
Telephone	-	-	-	8,149	8,149
TPA WC	-	148,913	-	-	148,913
Total administration expenses	12,718	256,695	99,000	1,091,532	1,459,945
Total operating expenses	3,634,460	2,545,004	3,950,153	1,091,532	11,221,149
Change in net assets before transfers	1,179,922	(389,362)	(19,073)	(1,091,532)	(320,045)
Transfers between funds	(614,826)	(764,701)	287,995	1,091,532	-
Change in net assets	565,096	(1,154,063)	268,922	-	(320,045)
Net assets, beginning of year	3,527,004	(236,490)	-	-	3,290,514
Net assets, end of year	\$ 4,092,100	\$ (1,390,553)	\$ 268,922	\$ -	\$ 2,970,469

OTHER INDEPENDENT AUDITORS' REPORTS



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based Upon the Audit
Performed in Accordance with Government Auditing Standards**

The Board of Directors
Utah Counties Insurance Pool

We have audited the financial statements of **Utah Counties Insurance Pool** as of and for the year ended December 31, 2006, and have issued our report thereon dated May 22, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Utah Counties Insurance Pool's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Utah Counties Insurance Pool's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Utah Counties Insurance Pool's** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Utah Counties Insurance Pool's** ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Utah Counties Insurance Pool's** financial statements that is more than inconsequential will not be prevented or detected by **Utah Counties Insurance Pool's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Utah Counties Insurance Pool's** internal control.

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Utah Counties Insurance Pool

May 22, 2007

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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Utah Counties Insurance Pool's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of **Utah Counties Insurance Pool** and the State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Larson + Company

Sandy, Utah
May 22, 2007



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on State Legal Compliance

The Board of Directors
Utah Counties Insurance Pool

We have audited the financial statements of **Utah Counties Insurance Pool** as of and for the year ended December 31, 2006, and have issued our report thereon dated May 22, 2007. As part of our audit, we have audited **Utah Counties Insurance Pool's** compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006. The Pool received no funding from major State assistance programs from the State of Utah.

Our audit also included test work on the Pool's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash management
- Purchasing requirements
- Budgetary compliance
- Special districts
- Other general issues

The management of **Utah Counties Insurance Pool** is responsible for the Pool's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Pool's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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The Board of Directors
Utah Counties Insurance Pool
May 22, 2007
Page 2

The results of our audit procedures disclosed one instance of noncompliance with the requirements referred to above, which is described in a separate management letter dated May 22, 2007. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except as noted above, **Utah Counties Insurance Pool**, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2006.

Larson & Company

Sandy, Utah
May 22, 2007

UTAH COUNTIES INSURANCE POOL

Management Letter

December 31, 2006



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

May 22, 2007

The Board of Directors
Utah Counties Insurance Pool
Midvale, Utah

We have audited the financial statements of **Utah Counties Insurance Pool** (the Pool) for the year ended December 31, 2006, and have issued our report thereon dated May 22, 2007. As part of our audit, we made a study and evaluation of the Pool's system of internal control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America and have issued our report thereon dated May 22, 2007. The purpose of this letter is to recommend certain matters which came to our attention during the course of the audit, which we believe will strengthen internal control and operating efficiency. These matters are not considered to be material weaknesses as defined in our reports on internal control referred to above. These matters, together with our recommendations, are presented below for your consideration.

State Legal Compliance Finding

Utah Code 17A-1, Part 4 dictates that a special district shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. State law requires budget integrity at the fund level. The Pool exceeded budgeted expenditures for the year ended December 31, 2006 by approximately \$900,000. The majority of this is due to losses and loss adjustment expenses in excess of budgeted amounts. We recommend that when the Pool is adopting their budget each year they consider not only cash outlays for losses and loss adjustment expenses, but also estimate the increase that may be needed for these reserves. We also recommend that the Board consider amending its budget as needed as changes in circumstance become known throughout the year to prevent the Pool from making expenditures in excess of budget.

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Prior Year Management Letter Points

State Legal Compliance Finding

Last year the Pool exceeded budgeted expenditures for the year by approximately \$1.6 million. We recommended that when the Pool is adopting their budget each year they consider not only cash outlays for losses and loss adjustment expenses, but also estimate the increase that may be needed for these reserves. We also recommend that the Board consider amending its budget as needed as changes in circumstance become known throughout the year to prevent the Pool from making expenditures in excess of budget. The Pool improved this year and only exceeded their budget by approximately \$900,000. We recognize that the reserves for losses and loss adjustment expenses are hard to estimate, but we recommend that the Pool continue to work on this area to prevent budget overages in the future.

Quarterly Financial Reports

Last year, we also recommended that the Pool prepare quarterly financial statements which include estimated actuarial adjustments for reserves to be reviewed by the board. This would enable the Pool to make adjustments as needed to premiums to ensure that premiums are adequate to cover changes in losses and loss adjustment expenses as well as administrative expenses. The Pool has followed this recommendation.

Checks

We also recommended that the mailing of the checks be done by an individual who is not involved in the accounts payable and claims processes. The Pool has followed this recommendation.

Deposits

In addition, we recommended that at least another individual be responsible to take the deposit to the bank than the individual who receives the payments, prepares the deposit slip, reconciles the bank, and records all accounting transactions. The Pool has followed this recommendation.

Disaster Recovery Plan

Last year, we also recommended that the Pool consider developing, implementing and testing a disaster recovery plan. The Pool is working on this and currently is performing a daily backup of computer systems.

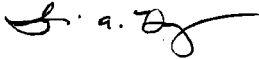
The Board of Directors
Utah Counties Insurance Pool
May 22, 2007
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This letter, by its nature, contains only our comments and recommendations observed during the course of our audit. Our comments are not to reflect the integrity or capabilities of anyone in your organization. Our interest is to help you improve the operations and control of the Pool.

We appreciate the courteous assistance of your personnel during the course of our audit. Should you have any questions regarding the above recommendations and comments, or require assistance in their implementation, please feel free to contact us.

Sincerely,

LARSON & COMPANY, P.C.



Geri A. Douglas, CPA
Officer/Shareholder